

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

October 24, 2006

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Dear Chairman Cropp:

It is exciting to see the return of Major League Baseball to the District of Columbia. Building the new stadium along the southeast waterfront has already spurred a number of new developments in the neighborhood, some of which are nearing completion (see the attached map). Many more are on the drawing board. I see a vibrant Anacostia Waterfront in the future. I strongly support the continued development of the Baseball District, as it is an important and necessary step towards the overall economic development of the District.

We are also well under way with the stadium. In May 2006 we went to Wall Street and issued bonds. Construction of the stadium is on schedule and the facility is beginning to take shape. While both economic development in the Baseball District and construction of the new stadium are proceeding at a rapid pace, we are about to reduce the overall potential benefits by failing to make a decision regarding parking at the stadium.

Council Action Required

The District is contractually obligated to complete the Baseball Stadium and Parking Facilities by March 1, 2008 in accordance with the Lease Agreement and the Construction Administration Agreement (CAA). In addition, as we move forward, the role of the Zoning Commission must be considered. The Zoning Commission has design approval over development of the Ballpark site. Pursuant to that authority, the Zoning Commission approved a design that includes a stadium, parking facilities and mixed-use development (collectively, the "Ballpark program"). No building permit or certificate of occupancy may be issued unless the buildings are consistent with the approved design of the Ballpark program. Although the Zoning Commission has already approved a Ballpark program with specific mixed-use development that requires approximately 1,600 parking spaces (both above and below-ground), there is not enough time to complete those parking spaces before March 2008.

If the District seeks to meet its contractual obligations with regard to the parking, two actions are required:

1. A legislative exemption of the District's use of the site from zoning requirements, if an expedited change in the Zoning Commission's decision is not possible in time to implement the chosen option.
2. Council authorization to spend an additional \$20 million from available baseball-related revenues, if parking option 3 is chosen (as presented below).

Parking Component of Current Zoning-Approved Proposal

If the Council and the Administration believe that the benefits of beginning Separate Development immediately outweigh the costs of fulfilling its contractual obligations to complete the Ballpark Stadium and parking facilities by March 1, 2008, then a number of options are available. For example, the proposal approved by the Zoning Commission and supported by the Mayor has the potential to provide Separate Development in the shortest period of time (although it is not CFO-certified). That proposal would provide approximately 1,600 parking spaces on the north side, two levels of Separate Development parking would be below-ground and three levels of stadium parking would be above-ground. The above-ground parking would be wrapped with condominiums and retail. At this time it is unclear whether the team would withhold approval of the Separate Development, as permitted by the CAA, and it is unclear when the stadium parking would be completed.

The proposed plan requires Council and Team agreement before proceeding. If agreement is reached, the proposal contemplates that Western Development Corporation would assign its development plans to a third-party. The third-party would work with the District and Team to select a developer for the Separate Development. The third-party would also provide an irrevocable bank letter of credit to the District equal to the purchase price of the development rights on the north side. This means that the District must use its own funds to build the approximately 1,600 spaces. The District would be allowed to draw on the letter of credit only after it has built all 1,600 spaces and team facilities in accordance with the design specifications of the plans. The CFO's estimated cost of constructing these 1,600 spaces is approximately \$138 million, including \$25 million of the existing \$611 million budget.

Along the same lines, the District could maximize Separate Development by placing all 925 stadium spaces below-ground on the north portion of the site. Under this scenario, the entire available air rights could then be used for Separate Development. However, this plan would require the Zoning Commission to modify its approved design.

In deciding whether to spend additional funds to build underground parking, the Council must weigh that cost against the expected proceeds of the sale of the Separate Development rights. Such a cost/benefit analysis has not been performed. At this point, it has not been shown that the proceeds of the sale of the Separate Development rights would be sufficient to offset the additional cost to build parking underground.

The proposal that constructs 1,600 parking spaces contemplates the use of funds or value from the sale of the Separate Development rights to finance the 925 parking spaces required by the Ballpark program. Currently money from such a sale is to be first used for land and environmental cost overruns and then for the Community Benefits Fund. The Community Benefits Fund is to receive incremental taxes from the Ballpark TIF area, excluding incremental taxes from the stadium footprint (see map attached). It is also to include funds from the sale of development rights within the stadium footprint. The Council may wish to reauthorize these funds to make parking the first spending priority; however, such a change would reduce resources available for land and environmental cost overruns and the Community Benefits Fund.

Consequences of No Action by Council

If the Council does not move forward to provide for parking immediately, the District will increase its exposure to substantial losses in revenue and higher costs on the stadium project. Specifically, the 1,225 parking spaces (excluding bus spaces) on the ballpark site are required under the Project Program Statement (§ I-B(3)), the Lease (§ 5.6) and the CAA (§ 5.4) among other agreements with the Team. This means that the failure to comply with the stated terms under these agreements may provide the Team with remedies as contemplated in each contract.

In addition to the \$611 million that the District must spend to complete the stadium, other exposures could be:

- The anticipated higher stadium taxes projected in the new stadium in 2008 would not be forthcoming. This loss would reduce the amount of projected revenues pledged to pay debt service on the bonds;
- Further delay could result in an increase in the District Government's construction cost;
- The costs of operating the RFK Stadium for the 2008 baseball season would be the responsibility of the Sports Commission. This would require appropriated District funds.

Thus, the amount above \$611 million required to complete the stadium project after March 1, 2008 will be substantial, anticipated baseball-related taxes will be significantly reduced, and payments due from the Team will be significantly reduced, while the financial obligations of the District could substantially increase.

Financial Market Implications

Last May, the District sold \$534.8 million Ballpark Revenue Bonds in the municipal (tax exempt) and taxable capital markets. Investors purchased those bonds with the expectation that the District would do what it said it would do – build the stadium by the 2008 baseball season. Even though the bonds were not sold as revenue bonds solely dependent on Stadium revenues, any delay in the opening could cause the price of our bonds in the secondary markets to fall. Although this would not directly affect the District's revenues, investors whose bonds lost value

would be less likely to purchase additional District bonds at attractive interest rates. In short, failure to complete the stadium could lead to higher prices for future District bond issuances.

It is important that the District establishes and maintain its credibility with the bond markets as an issuer that can undertake large capital projects and successfully complete them on time and on budget. This is especially critical as we will need credibility when we go to the markets to fund the badly-needed school improvements, as well as other high priority District projects.

As mentioned earlier, the stadium tax revenues at RFK are far less than the projected collection at the new stadium. For this reason, the bond repayments are structured to grow over time. The growth in debt service creates pressure to realize the higher revenues from the new stadium, including the rent payments from the team. In the worst case, if stadium taxes and other pledged revenues fall short of the amount needed to pay debt service, the Ballpark fee on large businesses would have to be increased.

Parking Options That Can Be Completed by March 2008

The District is contractually obligated to provide 1,225 structured parking spaces on the Stadium site. Months have passed with no decision on parking. Consequently, it is now too late to complete below-ground parking on the north portion of the site by March 2008. Three hundred below-ground parking spaces can still be completed on the south end of the site if construction is commenced immediately. Of the options put forth at the October 18th Council meeting, three can still be completed on the north portion of the site within the time frame required by the CAA. Only one of those options for the north can support future development at this time. We are at a point where two below-ground-parking options that would have supported Separate Development are no longer feasible. If a decision is not made shortly, the last remaining option capable of supporting Separate Development and delivering parking by March 2008 will be lost (see Table 1). The Sports Commission is now developing a request for competitive bids to estimate the costs of above-ground garages.

Temporary Off-Site Surface Parking

The first currently available option is an interim solution that would provide surface and off-site parking. This option would not comply with the program requirements, because it would require (a) building a temporary Team program (box office and team store), (b) renting spaces from Monument Realty on their property north of the stadium site, and (c) possibly renting land from WASA to the east of the stadium site. This option could be completed within the current \$25 million parking and Team program budget; however, it would not support Separate Development. To address the zoning issue, it would require a legislative exemption of the District's use of the site from zoning requirements if an expedited change in the Zoning Commission's decision is not possible. Because it would not meet the Team program requirements, the Team's advance approval is necessary. Finally, because this option is a temporary solution, it is likely that future Council action and additional spending would be required to provide a permanent parking solution.

Above-Ground Un-reinforced Parking on the North

Option two is to build a below-ground garage on the south side of the stadium and two above-ground garages on the north portion of the site. Depending on the results of the Sports Commission's competitive bids; the final cost estimate may be higher or lower than the current estimate of \$36 million. These two structures would not support Separate Development. In order to provide future development on the site, the garages would have to be demolished, but this action could only be accomplished with Team approval. Council action and additional spending would be required to provide future development opportunities. This option would also require a legislative exemption of the District's use of the site from zoning requirements if an expedited change in the Zoning Commission's decision is not possible.

Above-Ground Reinforced Parking on the North


The third option is to build a below-ground garage on the south side of the stadium and two permanent reinforced above-ground garages that would support Separate Development on the north portion of the site. Depending on the results of the Sports Commission's competitive bids; the final cost estimate may be higher or lower than the current estimate of \$56 million. If this option is to be completed by March 2008 a decision to proceed must be made within a month. This option would require a legislative exemption of the District's use of the site from zoning requirements, because even an expedited change in the Zoning Commission's decision would cause too long of a delay.

Further, this option would require the Council to authorize spending an additional \$20 million from baseball-related revenues for the construction and reinforcement of the garages to prepare them for future development. This estimated \$20 million would be derived from projected amounts to be deposited into the Ballpark Revenue Fund. Pursuant to section 3(b)(1)(C)(iii) of the Cost Cap Act, baseball-related revenue in the Ballpark Revenue Fund may be used to complete the stadium, subject to appropriation. The bond documents also require any excess funds in the Ballpark Revenue Fund be used to complete the stadium. The Cost Cap Act also authorized the Team, savings from value engineering, Federal, Private and other non-District government funds to cover cost overruns above the hard and soft cost caps.


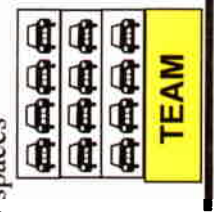
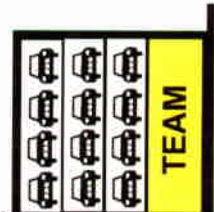
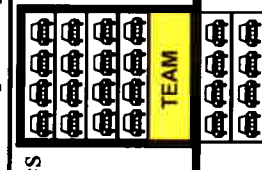

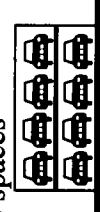
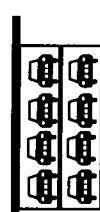
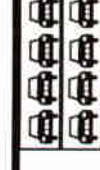
Conclusion

It is clear that the Council must act promptly. There is unfortunately no administrative "fix" within the parameters of existing laws. We will of course work diligently with the Council to find a solution to meet the District's contractual obligations in a legal and timely manner.

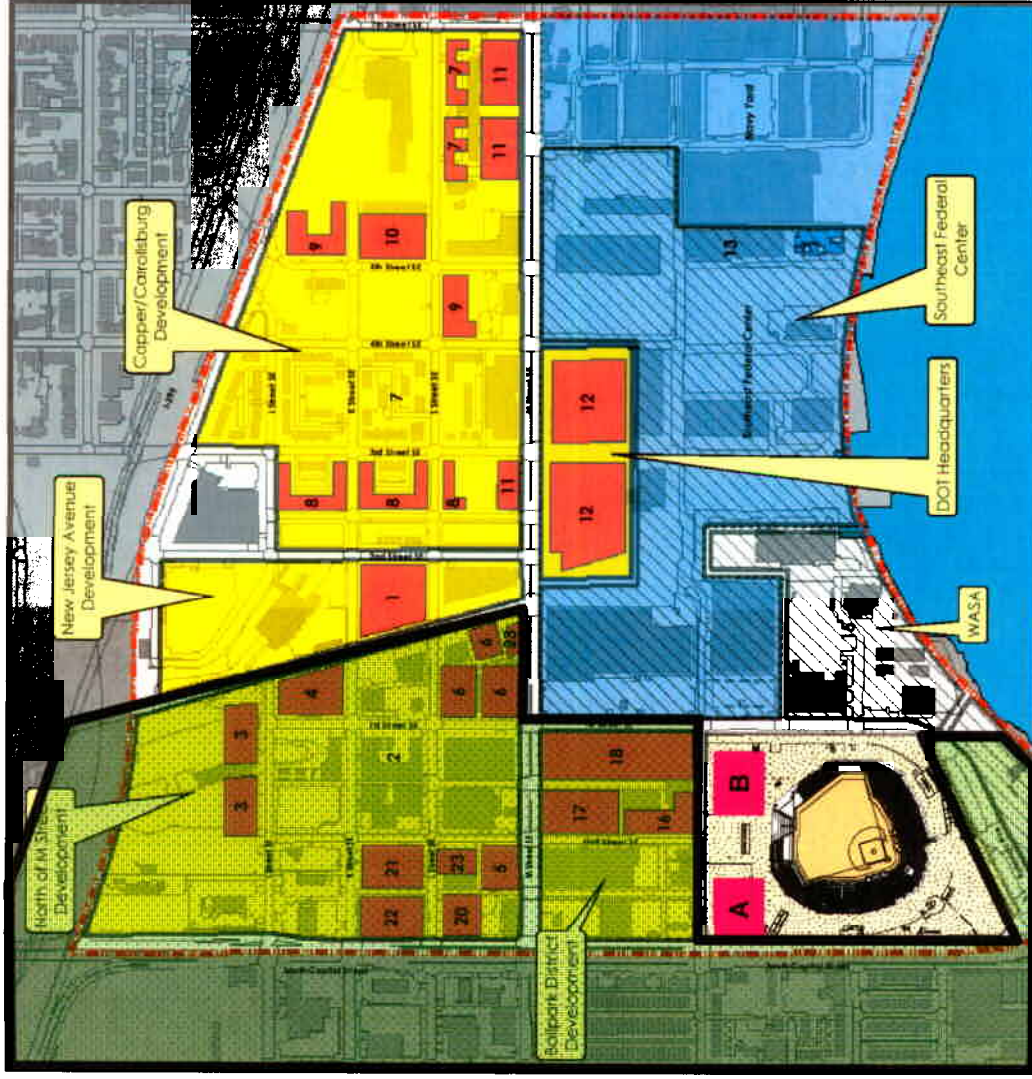
Sincerely,



Natwar M. Gandhi

Table 1	1 – Temporary Off Site	2 – Not Reinforced Above Ground	3 – Reinforced North and Underground South	4 – Parking in Zoning-Approved Plan
Description	North: None South: Surface Off Site: Leased	North: 3 levels South: 2 levels	North: 3 levels reinforced South: 2 levels underground	North: 2 levels underground 4 levels above ground South: 2 levels underground
Sources:				
Budget	\$25 M	\$25 M	\$25 M	Budget: \$ 25 M
Contingency	\$ 0 M	\$ 11 M	\$11 M	Developer
Excess Taxes	\$ 0 M	\$ 0 M	\$17 M	Debt/Equity: TBD
<u>Monetized Parking Revenues</u>	\$ 0 M	\$ 0 M	\$ 3 M	Add'l Sources: TBD
<u>Total Sources</u>	\$25 M	\$36 M	\$ 56 M	\$138 M
Uses:				
Parking & Team Store	\$25 M	\$36 M	\$56 M	\$138 M
Can Parking be completed by March 2008?	Yes	Yes	Yes	No
Can Separate Development Commence by Sep 2007?	No	No	Yes: to be built on top and around North garages	Yes: this option includes Separate Development plans
North Parking Concept	1075 off-site 	925 spaces 	925 spaces 	1600 spaces 
South Parking Concept	150 surface 	300 spaces 	300 spaces 	300 spaces 

Planned Developments Near the Ballpark (Ballpark Site not included in Community Benefits Fund)



	Name	Completion
1	Cap Hill Towers (hotel/residential)	Done
2	Cohen (office)	2012
3-4	JPI (residential)	2008
5	Lerner (office)	2007
6	Opus (mixed)	2008
7-11	Capper/Carrollburg (mixed)	2008
12	USDOT (office)	2006
13	SE Federal Center (mixed)	Unknown
14	Florida Rock (mixed)	Unknown
15	WASA (residential)	Unknown
16-17	Monument (mixed)	Unknown
18	Cohen (office)	Unknown
20	Lawrence Ruben (office)	Unknown
21	Old "Nation Site" (office)	Unknown
22	Lerner (office)	Unknown
23	WMATA (mixed)	Unknown

Community Benefits Fund Area

Office of the Chief Financial Officer

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